
PERSPECTIVES

President's Request for the Wye Supplemental Package and the Question of Implementation of the Wye Agreement

By

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I welcome this opportunity to discuss the President's request for the Wye Supplemental Package and the question of implementation of the Wye Agreement by both sides.

The Confluence of Economics and Politics in the Middle East

Let me begin by making a general observation about the Middle East. In this age, and certainly in this part of the world, it is impossible to separate our political and our economic interests. Economic progress in the Middle East serves America's political interests, and political progress in the Middle East serves our economic interests. There is no better way, over the long run, to promote stability, good governance, and the rule of law than by broadening economic participation and fostering a rise in the standard of living of the people of the region. Of course, economic growth in the Near East will also increase trade and investment opportunities for the U.S. private sector, another U.S. goal in the region.

The linkages between economics and our political goals are nowhere clearer than in our efforts to achieve a secure, stable, and lasting peace in the Middle East--one of our primary goals in the Middle East. We have, over the years, made a major contribution to Israel's economic well being. With a GNP approaching \$100 billion and a standard of living equal to much of Western Europe, Israel is now able to stand on its own feet economically, and this has enabled Congress to begin the phase-out of economic assistance to Israel. On the other side, Israel's Arab partners in the peace process face daunting economic challenges--first and foremost, high unemployment rates which are undercutting support for the peace process. Unemployment in the West Bank/Gaza and Jordan is in the 20%-30% range. Per capita incomes are one-tenth of Israel's. And with populations that expected a dividend in return for the risks their leaders took for peace, continued economic stagnation is damaging to the peace process and to our interests in the region.

So economic progress in the West Bank and Gaza and Jordan is essential to our political objective of advancing the peace process. That is one of the reasons why the Wye Supplemental is so important: it will help provide the critical economic underpinnings for the next stage in the peace process.

The Wye Supplemental

The signing of the Wye River Memorandum on October 23, 1998 was an important milestone for the Middle East peace process. Wye reflects Israeli/Palestinian agreement on the basic trade-off of land for security and establishes a parallel process for the implementation of all outstanding obligations of both sides under the Interim Agreement. The parties agree that effective implementation of the Wye agreement is the essential next step in the peace process.

Jordan, too, played an important role at Wye, and we expect it will continue to play a key role in the peace process. In this transition period following the death of King Hussein, we need to send a strong signal of support for King Abdullah as he continues in the footsteps of his father.

Both the Government of Israel and the Palestinian Authority requested U.S. financial support to help them implement the Wye Memorandum and to provide a tangible demonstration of U.S. support as they approach permanent status talks.

In fact, the prospect of the package has already been valuable in developing support for Wye implementation. Our pledge to work with Congress to secure \$400 million in supplemental assistance for the Palestinians helped mobilize increased assistance from other donors and demonstrate political support for Wye implementation. Last fall the President hosted a successful international donor's conference that raised over \$3 billion to support Palestinian economic development. The Palestinians need to know that, as they fulfill their Wye obligations, their economic circumstances will improve. The financial backing of the international community also sends a strong signal of U.S. and international support as the Palestinian Authority undertakes difficult steps to fight terror.

On the Israeli side, the implementation of Wye will involve security-related costs that the President has promised to help defray. At the same time Israel makes peace with the Palestinians, it is also facing wider security challenges for which it is seeking our financial assistance. As part of our long-standing commitment to Israel's security, the President felt it important to provide additional funding.

Overview of Wye Package

The Wye Supplemental request submitted to Congress on February 1 totals \$1.9 billion, divided among the three peace process parties as follows:

- \$1.2 billion in foreign military financing (FMF) for Israel;
- \$400 million in economic support funds (ESF) for the Palestinians;
- \$300 million for Jordan, broken down as
 - \$100 million in economic support funds (ESF); and
 - \$200 million in foreign military financing (FMF).

Just under half, \$900 million of the overall package, would be available in FY 1999 supplemental resources to meet most immediate needs. This amount would be fully offset with budget authority. This breaks down to:

\$600 million in FMF for Israel;
\$200 million in ESF for the Palestinians; and
\$100 million for Jordan--half ESF, half FMF.

Some \$500 million would be made available in FY 2000, with:

\$300 million in FMF for Israel;
\$100 million in ESF for the Palestinians, and;
\$100 million for Jordan--again, half ESF, half FMF.

And the final \$500 million of the package would be available in FY 2001, with:

another \$300 million in FMF for Israel;
another \$100 million in ESF for the Palestinians, and;
\$100 million for Jordan--this time all of it as FMF.

Let me describe the three elements of this package in greater detail, beginning with the Jordanian component.

Jordan

The President has signaled his intention to move forward immediately on seeking Congressional approval of the Jordanian element of the Wye package. We appreciate the actions by the Senate to approve the first \$100 million tranche of this amount on Tuesday. We are at a key juncture in Jordan's history with the transition to new leadership during a period of ongoing regional tension, especially in Iraq. It is important that we move forward quickly to demonstrate our strong support for Jordan's King Abdullah.

We have already seen the importance of our offer to accelerate \$300 million in supplemental funding--it helped calm markets and demonstrated U.S. leadership, putting us in a better position to get others to do their share.

We are mobilizing the Gulf states, the Europeans, our other G-7 allies, the Israelis, the IMF, and the World Bank to support the various components of a broad package of debt relief, additional aid, and expansion of markets for Jordanian goods and labor.

The Supplemental is a key element in our approach. We need to deliver the full \$300 million to maintain our leadership, to ensure a stable transition, and to provide the leverage to bring other partners on board.

The Jordanian component of the Supplemental includes three elements:

- In FY1999, a \$100 million supplemental--with \$50 million in ESF and \$50 million FMF;
- In FY2000, \$100 million, again, evenly divided between ESF and FMF;
- In FY2001, \$100 million--all FMF.

The FY 1999 component is extremely important to demonstrate responsiveness to Jordan's needs for economic and military support in this transition period. On the economic side, there is a need for immediate balance-of-payments support linked to economic reforms. Our support would send a very important signal. Militarily, there is an urgent need to demonstrate support for the modernization and readiness of the Jordanian armed forces. We expect \$50 million in FY 1999 resources to begin to redress weaknesses in logistical readiness in three time-sensitive areas: a HAWK air defense support package; refurbishment of Cobra helicopters and vehicles; and Y2K readiness in the Jordanian military.

Let me sketch out in greater detail the FMF and ESF components of this package.

The FMF resources will address the severely degraded conditions of basic military items--air defense, munitions, border security equipment, night vision, communications gear, transportation equipment, helicopters, anti-tank missiles, and basic fixed-wing aircraft. The current Jordanian inventory will be obsolete in 5 years without this infusion, and Jordan can't defend its borders with Syria and Iraq without this equipment.

The package developed by the Department of Defense contains the absolute minimum: spare parts, basic upgrades, and only the most essential equipment required to meet modernization and readiness needs.

The ESF package is also critical

Jordan's economy has been stagnant in recent years despite its economic reform efforts. There is always a lag between reforms and growth, and Jordan faces a difficult economic environment, surrounded as it is by markets in Iraq, Syria, the Gulf, and Israel that have either been depressed, closed, or difficult to break into.

Reducing unemployment and reviving economic growth are the key challenges facing the new king--and it is essential that he succeed. Half of the ESF component of the supplemental--\$50 million--would be disbursed in FY 1999 as balance-of-payments support. This would provide a much-needed shot in the arm for Jordan's balance of payments and would be keyed to an IMF reform program focusing on budget discipline and privatization. These two elements together should boost the market's confidence in the direction of the Jordanian economy and in the commitment of the international community to stand by Jordan during this transition period. We hope to disburse this initial \$50 million before the middle of the year.

The remaining \$50 million in ESF would be as an advance appropriation for FY 2000 and would be projectized--divided between water projects and regional development in the economically needy southern region. Increasing and improving Jordan's water supply is critical both in the near term and in the long term. Water could very well become the make-or-break issue for Middle East peace. Jordan faces a huge \$3 billion investment backlog in the water sector, which has led to over-pumping and damage to the aquifers. And, because of low rainfall, we are seeing the elements of a genuine crisis this year. It is essential that we demonstrate to the Jordanian people that we are working intensively on this problem and creating options for the future. Urban water shortages are already a politically sensitive issue; and there is a direct linkage to the peace process, given the water provisions of the 1994 Israel-Jordan peace treaty.

We also need Congress to signal its strong support for the FY 2000 and FY 2001 components of this package. Politically, given the transition to new leadership, it is essential to deliver on the full \$300 million package to demonstrate a firm U.S. commitment to continuity in our relationship with Jordan.

Economically, announcement of the full package is already helping to bolster economic stability; accelerate rapprochement with Gulf countries; strengthen our hand as we seek greater E.U. and G-7 support on assistance and debt relief; and urge the Israelis to do more on trade access to Israeli and Palestinian markets.

Programmatically, signaling support for the full \$300 million package lets us work with the Jordanian military to put into place a comprehensive modernization and readiness program with the confidence that it will be financed.

Israel

In recent months, we have met on a number of occasions with Israeli officials from the Ministries of Finance and Defense to define together the allocation of the \$1.2 billion in supplemental security-related assistance.

The Israelis originally cited more than \$3 billion in security requirements in the wake of Wye, broken down into the costs of relocating military facilities, providing security and constructing by-pass roads, meeting strategic military requirements, meeting counterterrorism requirements, and meeting other civilian needs, for example in the water sector.

We worked with the Israelis to prioritize their requirements, focused heavily on U.S.-sourced FMF that would be provided to the Ministry of Defense. We are proposing that half that amount is made available in FY 1999 and the balance divided between FY 2000 and FY 2001.

We are moving closer to agreement with the Israelis on the full package. We have agreed to finance certain expenses relating to relocation of bases from the West Bank to Israel proper--there is precedent from the Camp David period when we financed relocation of Israeli air bases from Sinai to the Negev. These would be priority items for FY 1999 funding. We are looking into the possibility of the Army Corps of Engineers serving as project manager for this effort. Total costs of the base relocations would come to about \$200 million.

We also believe we should support other counterterrorism needs including explosive detection and identification equipment and field vehicles. These would amount to another \$175 million.

Finally, we are looking at meeting a portion of Israel's strategic military requirements. These could include items such as Theater Missile Defense and related R&D costs that could help Israel address the emerging Iranian missile threat, Longbow helicopter upgrades, electronic warfare aerial platforms, and other communications and munitions requirements. We have not agreed on all these items, which would total about an additional \$800 million. Some of these items have longer lead times and might be more suitable for FY 2000 and FY 2001 financing.

Our discussions with the Israelis are progressing well, and we should be able to finalize a complete package in the coming weeks.

Palestinians

The Palestinians also have pressing needs associated with Wye implementation. Their standard of living has fallen by some 40% since the signing of the Oslo accords. Instead of enjoying the tangible benefits of peace, the Palestinian economy has suffered a severe downturn. We need to help them turn this situation around.

Our package can be divided into two components. For FY 1999, we will seek a total of \$200 million in supplemental resources for specific development projects. \$100 million would be used for projects that are directly related to Wye implementation. These projects would be for the benefit of the Palestinians but we would be flexible regarding implementation. For example, we would be willing to use some of the funds for security equipment to facilitate movement of Palestinian workers and goods through crossing points. We might also use it for cold storage equipment at the Gaza airport, safe passage infrastructure, and resources for enhanced people-to-people programs.

An additional \$100 million would be programmed for urgent Palestinian needs focusing on activities such as community development, rule of law, maternal-child healthcare, a scholarship program for higher education in key sectors, and the urgent task of preparing the Palestinians to take advantage of the potential for tourism in the millennial year.

For FY 2000 and FY 2001, our package would include \$100 million each for projects with longer lead times but for which we need to begin planning now. These include a wide range of community development activities, key infrastructure projects, and a West Bank industrial estate, which could catalyze the kind of private sector development in the West Bank that we are already beginning to see at the Gaza Industrial Estate.

It is very important to secure congressional support now for the full Palestinian funding package. Programmatically, we need the certainty of the out-year funding to enable us to begin to identify funding intermediaries and structures for projects in areas such as community development. It is important to emphasize that all these funds would be directly administered by USAID for specific projects for the benefit of the Palestinian people. No funds go to the Palestinian Authority itself.

Palestinian Security Performance

Disbursement of both the Israeli and Palestinian components of this package would only occur in the context of Wye implementation. We are pressing both sides to fully meet their Wye obligations. The key Israeli commitment is to a sequence of redeployments in the West Bank. The key Palestinian commitment involves sustained and intensive security cooperation to fight terrorism and its infrastructure.

When the Wye River Memorandum was signed at the White House on October 23, 1998, President Clinton said the Memorandum was good for Israel's security because it committed the Palestinians to highly specific and comprehensive actions to fight terror. Prime Minister Netanyahu made the case for the Wye Memorandum to his own people in much the same terms.

In the Wye Memorandum, the Palestinians committed themselves to a more rigorous and systematic set of security obligations than they had done in any previous agreement with the

Israelis. It included systematic unilateral efforts to prevent terror according to a detailed work plan, intensive cooperation with Israel's security services, bilateral cooperation with the U.S., and a trilateral security structure with both Israel and the U.S.

Since the signing of the Wye Memorandum, the Palestinians have taken some important steps to combat terrorism and terrorist organizations. They have arrested scores of Hamas members, interrogated terrorism suspects, and acted on that information. Recently, Palestinian Authority security force operations prevented what would have been very serious terrorist acts in Israel. Prime Minister Netanyahu telephoned Chairman Arafat to acknowledge these particular operations. Defense Minister Arens has also spoken publicly in positive terms about what the Palestinians have been doing to combat terror. The Palestinians are continuing to hold bilateral meetings with us and trilateral meetings with the Israelis and our people to coordinate these anti-terror efforts. They have taken steps to end the "revolving door" for Palestinian prisoners. In response to our efforts and their own obligations, the Palestinians have shared with us their latest security work plan.

More can and must be done because it is essential to peace that the Palestinians make a 100% effort to fight terrorism, both unilaterally and in cooperation with Israel. We have seen some important progress. But the enemies of peace are determined and vigilant in their efforts to destroy what has been built. We will continue to insist that the Palestinian leadership be even more vigilant in stopping these efforts. As in other aspects of the peace process, there must be a partnership on security between the Palestinian Authority and Israel. We are actively involved in fostering this partnership at the request of both sides, and it is now beginning to pay real dividends in terms of improving the security of the Israeli people.

Conclusion

This underscores the important role the United States has to play in Wye implementation. We have a finite number of economic tools at our disposal as we try to support our objectives in the Middle East. What is needed now is increased bilateral assistance—in the first instance for Jordan, but also for Israel and the Palestinians as the Wye Memorandum is implemented.

We are at a key juncture in the Middle East. The Wye agreement, with all its unmet promise, awaits full implementation. Final status talks are on the horizon. Israel is in the throes of an intense internal debate about the trade-offs associated with peace as it approaches elections in May. Jordan is in a period of transition. The Palestinians, as they look to difficult future negotiations, are desperately trying to deliver a peace dividend from agreements of the past.

And, more broadly, we sense that the strategic window for peacemaking that opened following the Gulf War and the collapse of the Soviet Union is beginning to close. Where once there was hope, there is increasingly disillusion; where once there was a process of confidence building, there is now growing mistrust; where once a regional coalition for peace was emerging, there is now a retreat into a dangerous state of limbo. It is a matter of history that, when there is no progress toward peace, a political vacuum develops, which is rapidly filled by political extremism and violence.

We have a unique opportunity to help Israel, the Palestinians, and Jordan make peace. This is a role the Administration and Congress have played together since the beginning of the peace process in 1973. In the same vein, I hope Congress and the Administration can work together in

the coming months as we shape a package that can play a vital role in underpinning Middle East peace.